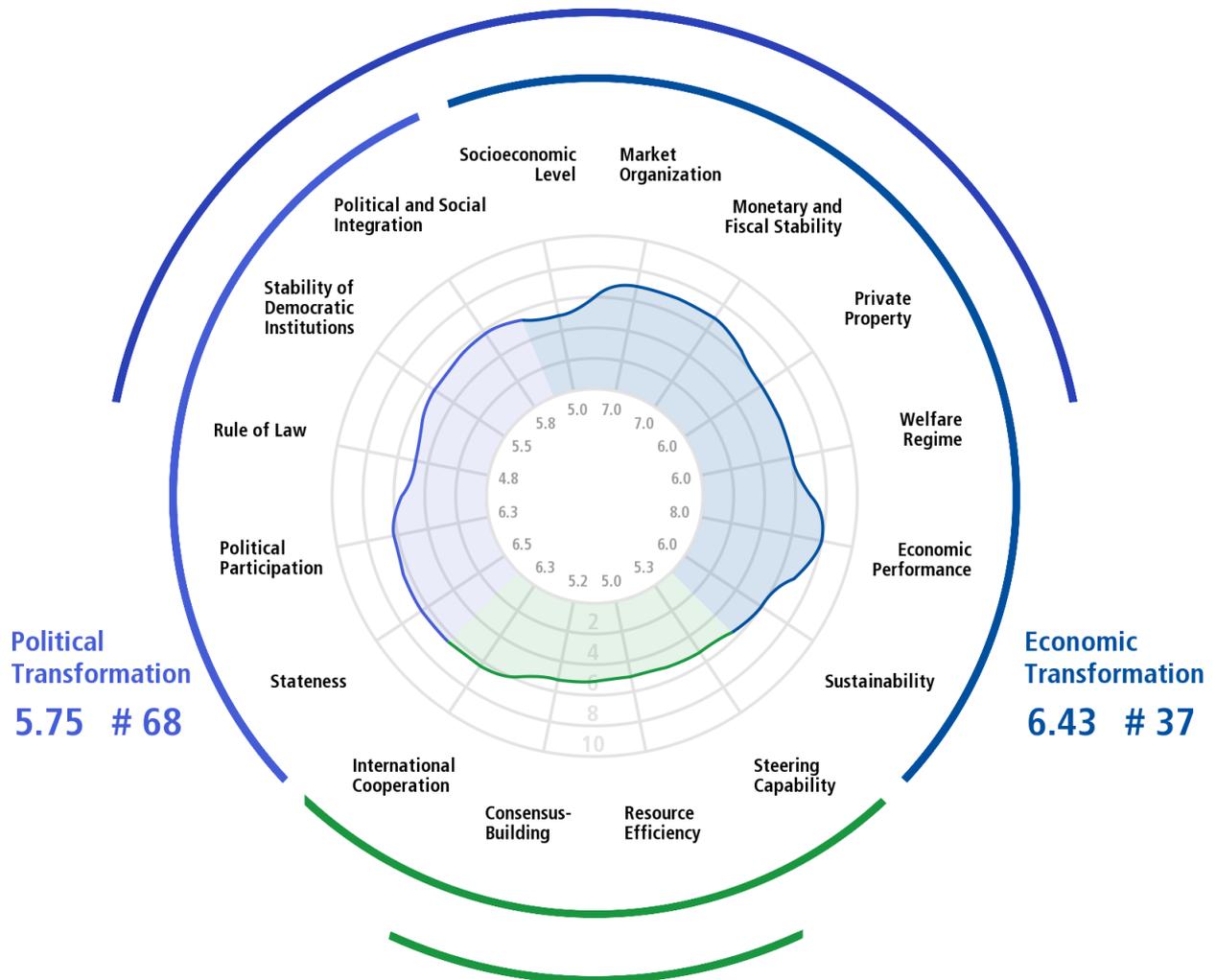


# Philippines

## Status Index

**6.09 # 54**

on 1-10 scale out of 137



**Political Transformation**  
**5.75 # 68**

**Economic Transformation**  
**6.43 # 37**

## Governance Index

**4.89 # 69**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Robert Schwarz**

Phone +49 5241 81 81402  
[robert.schwarz@bertelsmann-stiftung.de](mailto:robert.schwarz@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>106.7</b>	HDI	<b>0.712</b>	GDP p.c., PPP \$	<b>8935</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.4</b>	HDI rank of 189	<b>106</b>	Gini Index	<b>44.4</b>
Life expectancy	years	<b>71.0</b>	UN Education Index	<b>0.667</b>	Poverty <sup>3</sup>	% <b>26.0</b>
Urban population	%	<b>46.9</b>	Gender inequality <sup>2</sup>	<b>0.425</b>	Aid per capita \$	<b>1.5</b>

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

In 2016, mirroring recent events in other countries, the Philippines elected a leader who exhibited a strongman and personalist leadership style and incrementally reduced liberal-democratic features. Since President Rodrigo Duterte took power in 2016, his government has displayed authoritarian characteristics while maintaining a formal democratic shell.

Presenting itself as based on a law-and-order governing model, with drug users scapegoated for all social ills, Duterte managed to increase his power by oppressing the opposition and sidelining checks and balances. The legally questionable arrests of the senators de Lima and Trillanes as well as the disputed removal of chief justice Sereno are cases in point.

Under Duterte, human rights and civil liberties have declined dramatically. At the same time, the political influence of the military and the police has increased. The unrelenting and brutal campaign against drugs, often perpetrated by unidentified vigilante groups, has led to an erosion of the state monopoly of force. Freedom of speech and assembly is under threat as opposition forces face increasing pressure.

President Duterte is seeking to draft a new constitution and alter the political system of the Philippines by introducing a federal system. 2018 saw a new draft federal constitution proposed by an expert consultative commission, but subsequent changes made by the House of Representatives dashed hopes of significant political reforms.

The economic situation is less troublesome. The Duterte government has overseen no major changes in terms of economic policies and the Philippines continued their impressive economic progress of the last decade, with annual GDP growth rates of approximately 6%. In contrast to previous decades, the country is regarded by investment bankers and rating agencies as a promising and stable emerging market.

Nevertheless, the benefits of economic growth have not reached all people in the Philippines: approximately one-third of its population lives below the poverty line of \$1.25 per day. Without an effective welfare state system, mass emigration is understandably highly popular. In the second half of 2018, the first signs of an economic crisis appeared when commodity prices rose and inflation reached more than 6%, affecting the poorer segments of society in particular. Other economic indicators such as a comparatively severe devaluation of the peso, an increasingly negative trade balance, rising state debts and shrinking financial reserves are also eroding optimism.

The democratic and economic transformation of the Philippines is severely hindered by the oligarchic structures of both the political and the economic system. The long-lasting and entrenched dominance of various family clans in both spheres prevent the reforms that are necessary for the further deepening of democracy and the transformation to a more just market economy. President Duterte did not challenge these power structures and instead has been exploiting them for his authoritarian governing style. In the long term, however, significant political and economic transformation can only happen if the political decision makers dare to challenge the political and economic dominance of the family clans.

## History and Characteristics of Transformation

After achieving independence from the United States in 1946, the Philippines adopted a democratic presidential system. The future seemed to be bright, since in terms of industrialization, economic potential and public education the Philippines was one of the most advanced countries in Asia. In September 1972, then-President Ferdinand Marcos declared martial law and imposed a military-backed dictatorship. He drastically reduced civil and political liberties, closed down Congress and many universities and ordered the arrest of opposition figures. Additionally, he confiscated enterprises and redistributed them among his family, his cronies and the military, whose personnel quadrupled. The national economy suffered not only from mismanagement due to Marcos' crony capitalism but also from rampant corruption and spiraling foreign debts.

After the assassination of one of the most important opposition figures, Benigno "Ninoy" Aquino (the father of former president Benigno Simeon Aquino) in June 1983, resistance against the authoritarian regime gained momentum. In early 1986, mass demonstrations in the name of "people power" led to end of Marcos' authoritarian rule and the reintroduction of democracy.

As the first post-authoritarian president, the widow of "Ninoy" Aquino and mother of the later president Benigno Simeon Aquino, Corazon "Cory" Aquino (1986-1992) presided over the initial phase of a democratic transition that saw the drafting of a new democratic constitution, the dismantling of the centralized authoritarian power structure through decentralization measures and the restoration of pre-martial-law democratic institutions.

Her successor Fidel Ramos (1992-1998) concentrated his efforts on transformation toward a market economy by utilizing programs of liberalization and privatization with the aim of greater competitiveness in the international market. His development program provided a period of economic growth and political stability, even though the Philippines were already lagging economically behind other East and Southeast Asian countries. The next two presidents, Joseph “Erap” Estrada and Gloria Macapagal-Arroyo eroded the fundamentals of democracy in the Philippines. Estrada, whose presidency was troubled by allegations of abuse of power, a lavish lifestyle and corruption, was eventually ousted by mass demonstrations, called “people power II.” The Supreme Court inaugurated Gloria Macapagal-Arroyo as his successor in 2001. Three years later, despite serious charges of fraud in the course of the 2004 presidential election, Arroyo was re-elected to a full six-year term. Gloria Macapagal-Arroyo’s nine years in office were characterized by creditable economic performance amid a deepening crisis of legitimacy. She presided over 37 quarters of consecutive economic growth and adeptly managed the economy at the height of the global financial crisis in 2007 to 2008. However, economic growth did not benefit the majority of the people, since it did not contribute to alleviating poverty or reducing unemployment.

The potential gains associated with positive economic growth were eroded by a series of large-scale corruption scandals that rocked her administration. The political system began to adopt increasingly authoritarian features under her administration. Pure regime survival characterized the end of her administration as she faced a permanent gridlock with the Senate majority, not only on legislation but also on the state budget, creating a political standstill for several years.

In June 2010, Benigno “Noynoy” Aquino was elected president, with a six-year term, by a majority. His presidency led to a stabilization of the democratic system and remarkable macroeconomic growth. Necessary reforms to improve the living standard of a large part of the fast-growing population, however, were unsuccessful.

In May 2016, the mayor of Davao, Rodrigo Duterte, was elected president. Incrementally, he transformed the Philippine democratic regime into an increasingly authoritarian one by undermining civil rights and political liberties. His focus on eradicating drug abuse led to extrajudicial killings by vigilante groups as well as police and army personnel who enjoyed de facto immunity. Previous authoritarian leaders were looked on favorably: Duterte acceded to the installment of Gloria Macapagal-Arroyo as speaker of the House of Representatives in July 2018, found positive words for the period of authoritarian Martial Law, and supported the wife and the son of former dictator Ferdinand Marcos.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state claims to have a monopoly on the use of force in the entire territory, but in fact the Philippines is a rather weak state, at least compared to other Southeast Asian countries. Due to its vast territory and archipelagic nature, it is difficult for the central government in Manila to effectively govern the whole country. Local clans and in some areas – particularly in Mindanao – warlords are the de facto rulers in their areas. Frequently, they employ private armies that take the law into their own hands. Additionally, there are territories that are under de facto control of communist insurgents and Moro separatist groups.

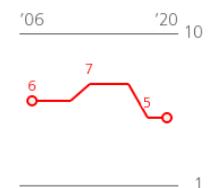
The state's monopoly on the use of force decreased significantly after Rodrigo Duterte was elected president in May 2016. Alleged criminals associated with the illegal drug trade were hunted not only by official police units but also by vigilante groups operating outside of the official legal system. According to human rights groups, more than 20,000 people have been killed by January 2019, all alleged to be drug dealers or consumers. In December 2018, Chito Gascon, the chair of the Philippine commission on human rights, said the death toll could be as high as 27,000. The official number given by the Philippine drug enforcement agency (PDEA) is 5,050 as of mid-November 2018.

Many perpetrators of these extrajudicial killings are vigilante groups, a pattern that could also be observed in the city of Davao up to 2016, where Duterte ruled as mayor. As in Davao, the Duterte administration suppressed judicial investigations into the killings and thus contributed to the uncertainty surrounding the perpetrators of the killings.

Question  
Score

Monopoly on the  
use of force

5



Despite its multiethnic and multilingual composition, the large majority of citizens stand behind the concept of the nation-state as outlined in the 1987 constitution. Access to citizenship is not denied to any particular group. Resistance stems only from some ethnic and religious minorities, particularly from the many Muslims in Mindanao, who see themselves more as Moro (the Spanish word for Moor, the Reconquista-period term used for Muslims) than Filipino. Therefore, the idea of Bangsamoro (Moro nation) is prevalent on the Western parts of the island of Mindanao and on adjoining smaller islands of the Sulu Archipelago. After a series of negotiations with various governments, a majority of Bangsamoro leaders accepted to stay with the Philippines in exchange for a greater degree of autonomy. A local referendum in the Muslim majority regions of Mindanao on the implementation of the Bangsamoro organic law (BOL) in January 2019 was supported by an overwhelming majority (90%).

Due to the Spanish colonial past, the vast majority of Filipinos are Roman Catholics. However, in recent decades the membership and importance of evangelical Christian groups, such as Iglesia ni Cristo, El Shaddai or Jesus is Lord has steadily increased.

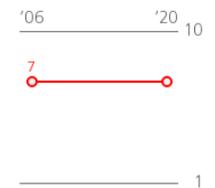
Officially, the principle of separation of church and state is stated in article II, section 6 of the 1987 constitution. However, in practice, the Christian churches represent millions of Filipino citizens and their political influence cannot be underestimated.

For decades, fierce opposition by most Christian groups hindered the passing of the reproductive health bill in Congress. The bill aims to provide contraceptives, information on family-planning methods at public health centers and comprehensive reproductive health curriculum in schools. National surveys found that more than 70% of Filipinos supported the bill, but public pressure from the churches prevented its passing for a long time. It was eventually passed by Congress and signed into law by ex-president Aquino in December 2012. The president of the Catholic bishops' conference has several times threatened to excommunicate Aquino as result. Current President Duterte supports family planning and has entered into conflict with representatives of the Catholic church.

The strong influence of conservative Christian values in the Philippines can also be seen in the issue of divorce. Apart from the Vatican state, the Philippines is the only country in the world without a divorce law. For many years, house bill 4408, which would permit divorce under very strict conditions, has been debated in the Philippine Congress, but Catholic resistance has so far prevented its passing. President Duterte has expressed willingness to adopt progressive social policies like LGBTI rights, divorce and full implementation of the reproductive health law. He has insulted the Catholic Church, which is becoming increasingly critical of the extrajudicial killings in the war on drugs. On various occasions, Duterte has called the Church a hypocritical institution, because its priests are guilty of their own wrongdoings.

#### State identity

7



#### No interference of religious dogmas

7



The state's fundamental infrastructure extends throughout the entire territory of the country, but due to the archipelagic nature and vastness of the country, its operation is to some extent deficient. The number of civil servants is relatively high (1.2 million). However, not all of these have the necessary capabilities to fulfill their tasks properly, free of corruption and excessive bureaucracy. With the introduction of the local government code in 1991, some functions were delegated to the provincial and communal level. There is also the possibility of the introduction of federal structures in the Philippines, since a draft federal constitution was approved by the House of Representatives in December 2018. However, there is still a long way to go since the Senate must also pass the bill, before a majority of the Filipinos will need to vote for it in a referendum.

As pointed out in indicator 1.1, local clans and other groups further prevent the state apparatus from fulfilling basic state functions. Therefore, the Philippines suffers from weaknesses in collecting taxes and law enforcement. Provision of communication, transport and basic infrastructure (water, education and health) covers almost everyone in the Philippines, but particularly in rural areas, the quality is often relatively low.

## 2 | Political Participation

Since 1992, elections have been held regularly in a synchronized manner: every six years for president, and every three years for half of the Senate, House of Representatives, governors and mayors. The last presidential elections took place in May 2016, simultaneously with the elections for the Senate and the House of Representatives, and additional provincial and municipal elections. The next elections for both houses of Congress are scheduled for May 2019.

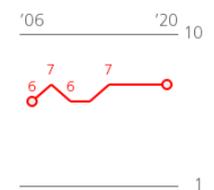
Elections are competitive and political posts are filled according to election outcome. Elections are conducted with a plurality (or first-past-the-post) electoral system that favors well-known and affluent candidates. For generations, political dynasties have dominated their constituencies and national politics.

One-fifth of the House of Representatives is elected through a closed party-list proportional representation electoral system. Intended as an instrument to promote poor and underrepresented groups and sectors of society, this system has been increasingly undermined by the political dynasties who file their members as representatives of marginalized groups.

The electoral management and particularly vote counting of the commission on elections (COMELEC) was previously fraught with manipulations and irregularities. The automated ballot-counting system introduced for the first time in the 2010 elections has improved the fairness of general elections. In the 2016 elections, the automated system allowed a determination of clear winners for the presidential and vice-presidential elections within 24 hours after voting had ended.

### Basic administration

7



### Free and fair elections

7



Election-related violence is a common feature in the Philippines. According to statements from the Philippine national police, the 2016 election campaign season was more violent than in recent years. More than 50 people were killed, including elected government officials, police, military, civilians and local candidates.

Particularly in rural areas, where local clans effectively rule, vote-buying and intimidation occur regularly. There are also cases in which polling stations run out of ballots or ballot boxes go missing. There have been allegations that computers have been manipulated to change results. These deficiencies, however, do not have a decisive impact on the overall outcome of election. Therefore, general elections in the Philippines can still be regarded as in accordance with democratic standards.

In principle, elected leaders have the power to govern without any restraint. However, there are some informal veto players, still sufficiently powerful to restrain executive actions. This refers to the approximately 60 very powerful political clans who dominate the local and national political arena. To a large extent, they and some other elite groups form an economic oligarchy that has significant influence on national political decision-making.

Another potential veto player is the armed forces of the Philippines whose subordination under civilian authority is only conditional. Some elements of the army leadership still consider themselves to have the right to interfere with the elected government if they believe the unity and stability of the nation to be threatened. This is bolstered by powerful networks between active and retired military officials and politicians. The effectiveness of the government's power is not impeded by foreign actors.

Article III of the 1987 constitution (bill of rights) guarantees the freedom of association and assembly. These rights are generally accepted and used by many Filipinos. Many organizations working on a wide range of issues exist. However, due to relatively weak state structures and powerful non-state actors, violence against people who make use of their constitutional right to assemble is still a major problem in the Philippines.

The Aquino administration (2010-2016) improved the enforcement of freedom of association and removed restrictions, which were imposed by the previous administration of Gloria Macapagal-Arroyo. The current government under President Duterte however, has returned to a more authoritarian style of leadership, making use of intimidation, harassment or threats of retaliation. Many NGOs that are critical of the government, particularly with regard to Duterte's human rights violations in the war on drugs, have received death threats and are bullied in public, particularly on social media. In a public statement, President Duterte said that human rights defenders are part of the drug problem and as such, human rights advocates should be targeted too.

Effective power to govern

6

'06 '20 10



1

Association / assembly rights

7

'06 '20 10



1

In general, freedom of opinion is guaranteed in the Philippines. The country enjoys a relatively high degree of media freedom, particularly in comparison to other states in Southeast Asia. Most print and electronic media outlets are privately owned and present a wide variety of views.

The freedom of the press report covering 2017, published by Freedom House, ranked the Philippines 88 out of 197. Reporters Without Borders is more critical and ranked the Philippines 133 out of 180 in their 2018 worldwide index. They stated that the Philippines is second only to Iraq as the deadliest country for journalists and other people working in media, with 76 work-related killings since 1992. In the 2017 impunity index produced by the New York-based organization Committee to Protect Journalists (CPJ), the Philippines were ranked as the third worst-performing country, behind Iraq and Somalia. In the index of the following year (2018), the Philippines had overtaken Syria and South Sudan and were now the fifth worst-performing country. The index notes that there were 42 unsolved murders of journalists in the Philippines between 2007 and 2017. Similarly, the 2018 Southeast Asia media report by the International Federation of Journalists (IFJ) ranks the Philippines as the worst offender in media impunity in the region because of the high number of killings.

In the past, it was private militias, often hired by local politicians, who silenced journalists with complete impunity. This is still the case, but additionally, the government under President Duterte has developed several methods for pressuring and silencing journalists who criticize government politics. In January 2018, the authorities revoked the license of the independent media institution Rappler. The founder and director of Rappler, an independent news agency, Maria Ressa said: “The government are using the power of the law to harass and intimidate media organizations they see as critics. I can’t think of any precedent for this in the 32 years I’ve been a journalist in the Philippines.” In February 2019, Maria Ressa was arrested on what many observers saw as being politically-motivated charges.

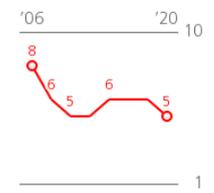
A 2018 report by Reporters without Borders warned that in the Philippines “the line separating verbal violence from physical violence is dissolving. Duterte not only constantly insults reporters but has also warned them that they are not exempted from assassination.”

Freedom House reported a rise in “digital authoritarianism” in recent years, as government-sponsored disinformation and propaganda flooded online discussions and communities. The Philippines slipped from “free” to “partly-free” and was ranked 31 out of 68 countries in the 2018 Freedom on the Net report.

Filipino veteran journalist Inday Espina Varona won the Reporters Without Borders’ prize for independence at the 2018 Press Freedom Awards. The prize is awarded to reporters for resisting pressure in the course of carrying out their work. Varona founded a social media women’s rights campaign in response to President Duterte’s frequent sexist and misogynist comments about women.

## Freedom of expression

5



1

### 3 | Rule of Law

The Philippines has a presidential system of government with a clear separation of powers. In practice, however, various problems with the intended system of checks and balances have emerged in the last decade. The House of Representatives always supports the incumbent president to a high degree, whereas a majority of the Senate tend to always keep a critical distance from the president. Gridlock therefore frequently occurs between the houses of Congress rather than between the executive and the legislative branch of government.

On various occasions President Duterte has made statements that the legislative and judicial branches of government should not hinder the implementation of his policies, statements that can be construed as contradicting the principle of separation of powers. Two critical senators became the victims of Duterte's authoritarian style of government. In February 2017, senator Leila De Lima, who previously led a Senate probe into killings during the anti-drugs campaign, was arrested on fabricated allegations of drug-trafficking and imprisoned. In March 2017, the European parliament called for De Lima's release. It expressed "serious concerns that the offenses senator De Lima has been charged with are almost entirely fabricated." Amnesty International regards de Lima as a "prisoner of conscience."

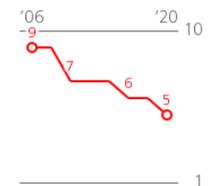
Another senator critical of Duterte, Antonio "Sonny" Trillanes, was arrested at his Senate office in September 2018. In his case, however, the regional trial court in Makati denied the government's petition to have Trillanes detained.

Despite this demonstration of judicial independence, the influence of the president on the judiciary is increasing. Duterte appointed a considerable number of justices to the Supreme Court. The biggest incident, however, was the removal of Maria Lourdes Sereno as chief justice. She was appointed by the previous liberal Aquino administration and opposed President Duterte's martial law and other executive actions. Duterte stated on several occasions publicly that Sereno is "bad" for the country and should be removed from her post, if necessary, by force. In May 2018, she was consequently ousted by a constitutionally questionable and politically motivated vote by the Supreme Court over a quo warranto petition, rendering her appointment as chief justice in 2012 null and void.

The judiciary in the Philippines is formally independent. However, in practice, bribes by rich and powerful people have frequently influenced prosecution, conviction and sentencing in countless civil and criminal cases. Consequently, courts often take decisions in favor of the rich and powerful. The relatively low salaries of judicial officials perpetuate the problems of bribery and interference in court proceedings by government officials and military personnel at all levels. Another problem is the extremely long duration of court proceedings. A prominent example is the Maguindanao massacre, which occurred in November 2009, the court process of

Separation of powers

5



Independent judiciary

6

which is still ongoing in early 2019. The decision of Quezon city regional trial court to allow Maguindanao massacre suspect Zaldy Ampatuan (who is facing murder charges over the death of 58 individuals) to attend the wedding of his daughter in a 5-star hotel in Manila in August 2018 “for humanitarian reasons” was widely criticized. Meanwhile, four of the accused have died in detention, including former Maguindanao governor Andal Ampatuan Sr.

Concerning the Supreme Court, a critical point for judicial independence is the current appointment practice of judges by the president. As already explained in indicator 3.1, the politically motivated removal of Maria Lourdes Sereno as chief justice must be regarded as a serious infringement on the independence of the judiciary.

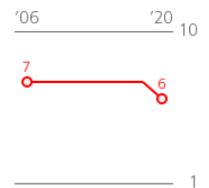
The abuse of public office, not only at the national but also at the local level, remains a crucial obstacle for the further enhancement of democratic and socioeconomic development in the Philippines.

President Duterte promised in his election campaign to take a tough stance on corruption. Indeed, he has fired more than 30 cabinet members and government officials who were appointed by him, over allegations of corruption. However, formal charges have yet to be filed against them and no major arrests have been made.

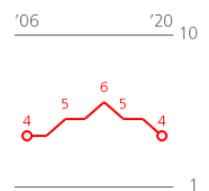
Suspects in major corruption cases such as the former president Gloria Macapagal-Arroyo have been released from custody and even promoted to become speaker of the House of Representatives. The president was also responsible for granting effective immunity to policemen and vigilante groups involved in the killing of thousands of alleged drug dealers and traffickers since taking office in 2016. The Philippine commission on human rights reiterated its concern over the lack of accountability over these killings and complained about “the sense of impunity that has pervaded the country where violations occur and no one is held to account.”

De jure, the protection of personal liberty against state and non-state actors is guaranteed in Article III of the Philippine constitution. De facto, there are increasing problems, since the number of extrajudicial killings and the suppression of the political opposition have increased significantly since President Duterte became president in 2016.

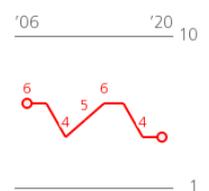
The increased powers of the armed forces and the national police and their de facto immunity granted by the Duterte administration have had negative effects on civil rights. Without improving their professionalism and accountability and imbuing respect for human rights, granting the police and the military free rein to curb criminality has had predictably negative repercussions. On several occasions, President Duterte has threatened human rights group activists who criticized his uncompromising tactics against illegal drugs.



Prosecution of office abuse  
4



Civil rights  
4



In January 2019, the House of Representatives' committee on justice approved a bill lowering the minimum age of criminal responsibility from 15 to nine years. Amnesty International Philippines stated that with this decision the committee has demonstrated its utter disregard of internationally recognized laws and practices that protects human rights, in this case, the rights of children. The bill will, however, in all likelihood not become law because of the lack of a Senate-approved version, which is obligatory.

In 2017, President Duterte threatened to abolish the commission on human rights (CHR) and urged his majority in the House of Representatives to cut the CHR's budget to PHP 1,000 (around €25) from PHP 650 million (€15 million). Ultimately, after some weeks of discussion, the House of Representatives approved the CHR's original budget. Both cases illustrate the low regard displayed by the Duterte administration toward civil rights.

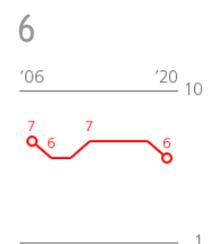
It should be made clear that there is no systematic discrimination against women, ethnic or religious groups in the Philippines. The above-mentioned infringements on civil liberties are nevertheless serious.

#### 4 | Stability of Democratic Institutions

President Duterte's leadership style is increasingly authoritarian, which seriously undermines the performance of the democratic institutions in the Philippines. Congress is dominated by members of the powerful political clans who have little interest in reforming the political status quo. This was reflected in the debates on reforms to the 1987 constitution, during which the House of Representatives blocked many reform-oriented proposals made by the consultative commission. In addition, the extremely time-consuming procedures in Congress hamper governmental effectiveness. Several important bills have been delayed or debated for more than five or sometimes even 10 years. The quantity and quality of legislative outputs are insufficient to substantially address the socioeconomic problems of the country.

As explained in the "Separation of Powers" and "Independent Judiciary" indicators, judicial independence is facing increasing political pressure. The efficacy and efficiency of many local government administrations by contrast, however, seems to have improved in recent years.

Performance of democratic institutions



In general, all relevant political and social players accept democratic institutions as legitimate. No major political parties, associations, interest groups or civic organizations are openly campaigning against democratic institutions. However, democracy in the Philippines is being slowly eroded by an elected government that has incrementally rolled back democratic achievements. This is a trend that can be observed in many other states worldwide, including the country of the “big brother” of the Philippines, the United States under Donald Trump.

President Duterte, his staff and most of his followers have an electoral rather than liberal conception of what constitutes a democracy. Hence, there are clear authoritarian tendencies to observe that include the reduction of civil rights and political liberties. The Duterte administration shows little appreciation for human rights or check and balances. It severely criticizes opposition views and actions.

The growing political importance of military and police leaders is not a good sign for democracy. Several radical Islamist groups from Mindanao as well as underground communist groups more or less openly reject democratic institutions, but they represent only a small minority in the Philippines. They are not a real threat to democracy. Most dangerous are those already in power.

## 5 | Political and Social Integration

Due to the prevalent presidential system of government with a plurality voting system, all political parties play a subordinate role in Philippine politics. People vote for individuals rather than for parties. Therefore, the existing parties are not deeply socially rooted and organizationally institutionalized. They are not grounded in issues, ideologies and party platforms, but rather on personal connections and networks. Therefore, the level of polarization is relatively low and coalitions between all parties are possible.

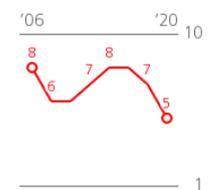
After the 2016 Congressional elections, dozens of members of the incumbent Liberal Party switched to Duterte’s party, PDP-Laban. The latter originally had only three seats but became the biggest party in the House of Representatives after the huge party-switch, with more than 110 of the 297 parliamentary seats.

During his presidency, Duterte has not made any serious efforts to strengthen his party. In fact, he allowed his daughter Sara Duterte to form a regional party that at present appears to be more powerful than PDP-Laban.

Political parties in the Philippines are only able to articulate and aggregate societal interests in a very limited way. They are rather vehicles for powerful individuals. The draft federal constitution, approved by the House of Representatives in December 2018, plans a return to a two-party-system as in the United States or in the Philippines prior to 1987. The first two “dominant” parties garnering the highest number of votes during the first national elections under the new constitution would become the official parties. If realized, this new system will not contribute to a strengthening of political parties.

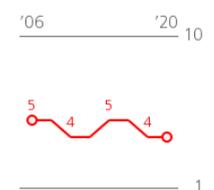
Commitment to democratic institutions

5



Party system

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In the Philippines, a huge number of interest groups and organizations work as mediators between society and the political system. These groups and organizations all compete for political influence. As in all other political systems, access to financial resources is quite unequal between well-off business associations and non-profit civil liberty groups.

Whereas the Aquino administration had relatively good connections to various social groups and organizations, the relationship between the Duterte administration and NGOs, trade unions and social movements is rather strained. Representatives of certain business and social groups that refrain from criticizing the government enjoy relatively good access to the current president and his administration.

Approval of the democratic system and that of democratic institutions is relatively high in the Philippines. Traditionally, support for democracy is among the highest in democratic East and Southeast Asia. The number of Filipinos who are satisfied with how democracy works in the Philippines remains very high, as a survey by the social weather stations (SWS) revealed in September 2018. Its third quarter 2018 survey found 84% of adult Filipinos satisfied with the way democracy works in the country.

The September 2018 survey also found 59% agreed that “democracy is always preferable to any other kind of government,” compared to 20% agreeing that “under some circumstances, an authoritarian government can be preferable to a democratic one.” 19% agreed that “for people like me, it does not matter whether we have a democratic or a non-democratic regime.” At the same time, several recent studies have found that the understanding of democracy by Filipinos focuses very much on elections and questions of political performance, and not so much on aspects such as civil and political rights or the rule of law (that is, the liberal ingredients of democracy).

Concerning political institutions, a representative Pulse Asia Survey conducted in June 2018 found that 61% of respondents had trust in the Senate, 58% had trust in the House of Representatives, and 54% had trust in the Supreme Court.

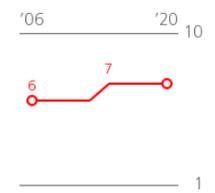
As in other Southeast Asian societies, many elements of social capital such as mutual networks, trust among people, informal societal structures and volunteerism are widespread in the Philippines. Particularly close network ties with family and friends are of utmost importance in Philippine society.

Utang na loob (reciprocity), meaning the obligation to appropriately repay a person who has done one a favor, is a common Filipino cultural trait as well as pakikisama (togetherness). Pakikisama refers to the ability of a person to get along with others to maintain good and harmonious relationships. This includes offering help to neighbors who are in need.

Social life in the Philippines is structured to a high degree by many social organizations that are mostly voluntary and autonomous.

#### Interest groups

7



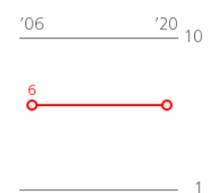
#### Approval of democracy

6



#### Social capital

6



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Between 2006 and 2015 (the latest available data) economic growth contributed to the poverty rate in the Philippines falling by five percentage points. Poverty declined from 26.6% in 2006 to 21.6% by 2015, due to factors including the expansion of jobs outside agriculture, overseas remittances and government transfers, in particular to qualified poor Filipinos through the Pantawid Pamilyang Pilipino Program.

The third quarter 2018 social weather survey, conducted in September 2018, found 52% of families (representing around 12.2 million people) consider themselves poor. The survey also found that of self-classified poor families, 8% used to be non-poor between one and four years previously (“newly poor”) and 6% used to be non-poor five or more years ago (“usually poor”). The remaining 39%, or about three out of four poor families, had never experienced being non-poor (“always poor”).

A more positive picture emerges if one looks at the values of the Human Development Index of the United Nations, which indicates that the Philippines has experienced significant positive development in recent years, but remains nevertheless at a “medium human development level.” The country reached an HDI value of 0.699 in 2018 compared to 0.668 three years previously and 0.630 in 2012. The Philippines are now on 113 out of 189 countries, overtaking neighboring Indonesia (position 116) due to a higher number of years of schooling.

The level of social exclusion due to poverty remains high and the gap between rich and poor is showing no signs of narrowing. In fact, it is increasing over recent years. With a value of 43.0 (2012) the Philippines are in a medium position in the World Bank’s Gini index, which measures income disparities worldwide.

Opportunities for people from the lower strata of society to find a good job and to advance socially are very constrained. Therefore, millions of Filipinos choose to migrate temporarily or permanently to work abroad as an OFW (overseas Filipino worker).

Inequality between genders remains a concern. However, in comparison with other Southeast Asian and developing countries, discrimination against women is not extreme. More educated women are in high-ranking positions than in Western countries, whereas in rural areas violence against women by their husbands is still common. In the World Economic Forum’s most recent Gender Gap Index (2018), the

Question  
Score

Socioeconomic  
barriers

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Philippines reached a remarkable eighth position (top position in Asia and above Germany at position 14, United States 51, Singapore 67, Italy 70, China 103).

The Philippines – in 10th place in 2017 – has been among the top 10 most gender equal countries in the world since the report was launched in 2006. The WEF said the Philippines maintained its high ranking on the back of strong efforts to close the gender gap in political empowerment.

The report noted that the Philippines have achieved “full parity” in terms of “political and economic leadership” and that “women and men are already equally likely to attain managerial positions.” The WEF noted the country has managed to close about 80% of the total gender gap, which is the “highest value ever recorded” for the Philippines.

In the United Nations gender inequality index (2017) however, the Philippines, with a value of 0,427 and rank of 113 out of 189 countries, is only slightly below the worldwide average. One reason for this rather sobering result is that its maternal mortality rate is still relatively high.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	292774.1	304897.6	313619.7	<b>330910.3</b>
GDP growth	%	6.1	6.9	6.7	<b>6.2</b>
Inflation (CPI)	%	0.7	1.3	2.9	<b>5.2</b>
Unemployment	%	3.0	2.7	2.6	<b>2.5</b>
Foreign direct investment	% of GDP	1.9	2.7	3.3	<b>3.0</b>
Export growth	%	8.5	11.6	19.7	<b>13.4</b>
Import growth	%	14.6	20.2	18.1	<b>16.0</b>
Current account balance	\$ M	7265.7	-1198.9	-2143.0	<b>-7878.8</b>
Public debt	% of GDP	41.5	39.0	39.9	<b>38.9</b>
External debt	\$ M	76494.5	72930.9	74381.9	<b>78824.4</b>
Total debt service	\$ M	10576.2	10955.7	11131.7	<b>8766.1</b>

Economic indicators		2015	2016	2017	2018
Net lending/borrowing	% of GDP	-1.3	-2.3	-2.2	-
Tax revenue	% of GDP	13.6	13.7	14.2	-
Government consumption	% of GDP	10.9	11.2	11.2	<b>11.9</b>
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	1.4	1.4	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.1	1.4	1.2	<b>1.1</b>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

For decades, economic output in the Philippines lagged behind its neighbors, although it has seen recent improvements. Underwhelming economic output can be partly explained by the geographic nature of the archipelago and the low quality of the education system. But the primary cause is the oligarchic structure of the economy and its lack of competition and investment driven culture. This is well reflected in the low investment to GDP ratio compared to neighboring countries and high market concentration in several sectors.

De jure, the Philippines is probably one of the most liberal economies in Asia. State-owned enterprises do not play a significant role in the national economy, which is dominated by private business. However, there are still conglomerates and cartels owned by clans with strong ties to the political elite. Despite existing antitrust legislature and the accession to the WTO in 1995, the situation has not changed over the past couple of decades. Unfair trade practices exist especially in the sectors of telecommunications, energy, agriculture, food products and the cement industry. As a medium-developed country, the informal sector, which employs approximately 75% of the labor force, remains significant to the national economy. According to ILO, survey data indicate increasing numbers of workers in the informal sector, beyond the reach of social protection and labor legislation.

One hindrance is the inefficient bureaucracy that regulates investments and business operations in the country. Even if there are legal assurances over competition, bureaucratic red tape and lack of institutional autonomy of regulatory agencies increase the risk of doing business in the country. Establishing a business is particularly burdensome according to the World Bank's 2019 Doing Business report: it takes 13 procedures, 31 days and costs of 20.3% of the average income per capita,

Market  
organization

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'06 '20 10



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placing the country 166 out of 190 in the “Starting a Business” sub-index. Excessive red tape is also a major source of corruption in the country. High rates of corruption are often cited as the most significant obstacle for private investments in the Philippines. Despite increasing efforts to combat corruption, the problem remains one of the most pressing challenges facing the government.

The Philippine administrative system has a wide range of antitrust regulation at its disposal. Article 12, section 19 of the constitution explicitly states that the Philippine state “shall regulate or prohibit monopolies when the public interest so requires.” Additionally, “no combinations in restraint of trade or unfair competition shall be allowed.”

Nevertheless, the enforcement lacks decisiveness, due to vague formulations, overlapping competencies between several agencies and strong ties between the economic and political elites.

The Philippine fair competition act, patterned after the main antitrust laws in the United States, came into effect in July 2015. Its intention is to ensure efficient and fair market competition among businesses engaged in trade, industry and all commercial economic activities.

It prohibits anti-competitive agreements, the abuse of dominant positions, and mergers and acquisitions that limit, prevent and restrict competition. There is some hope that the Philippine competition act is a useful tool to eliminate cartels, as well as penalize anti-competitive agreements and abuses by dominant players in the markets that lead to higher prices of goods and services. In 2018, the Philippine competition commission (PCC) was very active fighting against cartels and reducing the high rates of concentration within the domestic market.

The PCC aims to strengthen incentives for providing evidence of anti-competitive activities by expanding the scope of immunity for cartel members.

The Duterte administration has stated in the past that it was willing to open strategic sectors to foreign competition. The economic provisions of the draft federal constitution, however, continue to restrict foreign ownership and investment. The Philippine foundation for economic freedom (FEF) expressed serious concern over these provisions and regards them as directed against investors and not adapted to modern times. FEF also stated that such restrictions would discourage competition in the country and hinder the provision of better services.

#### Competition policy

5



Rhetorically, the Philippines has always supported a free-trade and non-protectionist foreign trade policy even if the reality on the ground was somewhat different. The Duterte administration has not altered this old tradition.

The Philippines' membership in the ASEAN economic community eliminates tariffs on approximately 99% of all goods for ASEAN trading partners, with some exceptions for sensitive goods. However, there are still import quotas for rice and some other food products. In addition, the World Bank's Doing Business Report 2019 noted that the Philippines made trading across borders more difficult by increasing the number of inspections for importing, thereby increasing the average time for border compliance. The simple average most favored nation (MFN) tariff applied to imports was 6.3% in 2017.

Foreign investors experience several restrictions on what they may own, such as in natural resource exploration, operation and management of public utilities and education institutions. Sectors of strategic importance, notably agriculture, fishery and several services, are generally restricted. The Duterte government has announced certain sectors will be slowly opened up for foreign investment, for example in manufacturing and established "preferred areas," accompanied by tax and other incentives. This, however, is yet to occur, not least due to resistance from local and vested business interests in the Philippine Congress.

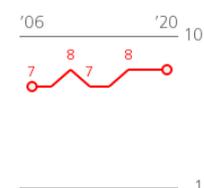
In 2015, the EU granted the Philippines duty free entry to the EU for many of the most important Philippine export goods under the GSP+ scheme. In January 2019, European civil society organizations urged the European Commission in a joint letter to address the gross and systematic violations of human rights occurring in the Philippines by starting the withdrawal procedure of the trade preferences the Philippines enjoy under the GSP+ scheme, which are linked to the adherence to international human rights standards.

The protectionist economic provisions of the draft federal constitution would continue to restrict foreign ownership and investment and run contradictory to trade liberalization.

The Philippine banking system has been well-capitalized and resilient in the face of turbulence in the global economy. In June 2018, the consolidated capital adequacy ratio (CAR), which displays a bank's risk weighted credit exposure, averaged 15.8% (10.0% in 2017 according to World Bank data). This is well above the Basel III standard of 8% and the Philippine central bank (Bangko Sentral ng Pilipinas, BSP) increased the reserve requirements for universal and commercial banks even higher to 20%. In the first half of 2018, however, the BSP reduced the reserve requirements twice, to a new requirement of 18%. Despite the recent reductions, the Philippines still has one of the highest reserve requirements in the region.

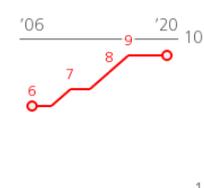
### Liberalization of foreign trade

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### Banking system

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The Philippine banking system's gross non-performing loan (GNPL) ratio stood at 1.9% as of June 2018 (1.6% in 2017 according to World Bank data), a very low value. The resources of the country's banking system continued to grow significantly with around 10% growth rates per year since 2015. In January 2018, the BSP released the framework for banks to offer a basic deposit account to promote account ownership among the large number of unbanked Filipinos.

## 8 | Monetary and fiscal stability

The Philippine central bank is generally considered quite independent from the government. In 2018, the country's economy was put under pressure when inflation rose to 6.7% during September and October, while the overall average of 2018 was 5.2% (Philippines statistics authority). This was far higher than the government's target range of 2% to 4% and considerably higher than in the last nine years. The high inflation in 2018 can be attributed primarily to higher prices of basic commodities such as rice and fuel, which were in part caused by tax hikes of the Duterte government.

To combat high inflation, the Bangko Sentral ng Pilipinas (BSP) had to control money flows in the economy by instituting hefty interest rates on banks. In several rounds of monetary policy tightening BSP lifted its key rates from 3.0% to 4.75% in December 2018. A September 2018 Pulse Asia survey found that 51% of Filipinos disapproved of how the Duterte administration was handling the issue of high inflation, which at the time was the people's top national concern.

At the same time, the Philippine peso reached a new record low, becoming the weakest currency in the ASEAN group in 2018. Possibly the most important factor behind the peso's weakness was the unusually strong surge of imports.

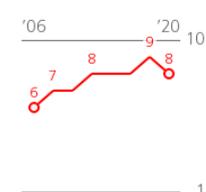
In the long run, the monetary stability of the Philippines is quite good. In the World Bank real effective exchange rate index, which measures the value of a currency against a weighted average of several foreign currencies divided by a price deflator or index of costs, the Philippines reached a value of 105.7 in 2017 compared to 100.0 in 2010.

All three major rating agencies have recognized improving economic conditions in the Philippines. Moody's kept the Philippines' Baa2 rating and stated in July 2018 that this positive rating reflects the country's limited vulnerability to external shocks. Standard & Poor's upgraded their rating for the Philippines to BBB with a positive outlook in April 2018. Fitch upgraded its country rating in December 2017 to BBB with a stable outlook.

Whereas the Aquino presidency effectively reduced the fiscal deficit, the Duterte administration increased state spending and consequently state debts. As a result, the

### Monetary stability

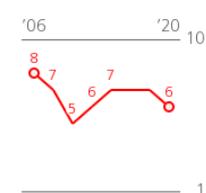
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### Fiscal stability

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Philippines' public debt reached an all-time high of PHP 7.16 trillion (about \$133 billion) in September 2018, an increase of more than 33% from the time President Duterte took over in 2016. Foreign obligations amounted to 36% of the total debt.

The debt-to-GDP ratio, however, was 41.9% in 2018 (Philippines statistics authority), still very low compared to other countries in the region and worldwide, but a significant increase from the 33.9% in 2017 (World Bank Data). In addition, the Philippines's foreign exchange reserves continue to shrink under the Duterte administration and were measured at \$65.3 billion in October 2018, which is more than \$20 billion less than in August 2016.

## 9 | Private Property

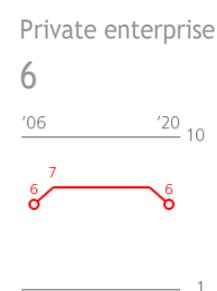
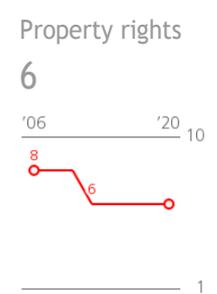
Although the constitution provides a legal framework for private property rights, enforcement remains inconsistent. Outdated and conflicting laws hinder coordination between administering agencies, allow for arbitrariness and corruption, increase transaction costs and consistently lead to conflicts with informal settlers.

In order to resolve this situation and to streamline the process of land registration, the Philippine Congress has been deliberating on a land administration act for more than 10 years. According to the proposals, all administering competencies should be transferred to a single agency, the land administration authority, with quasi-judicial powers to settle private property disputes. However, it remains questionable if the bill will be passed by Congress anytime soon.

According to the World Bank's Ease of Doing Business report, the private business environment is becoming increasingly more difficult in the Philippines since the Duterte administration took over in 2016. In 2018, the Philippines were ranked 113 out of 190 countries, whereas by 2019 the country had fallen to 124. This means that the country has been downgraded 25 positions since 2017, when it was ranked 99.

According to the 2019 World Bank report, the Philippines made starting a business easier by simplifying tax registration and business licensing processes, but at the same time, it increased tax registration costs.

The report ranks the Philippines on a very low position in the category "Starting a business" and notes the delayed implementation of regulatory reforms. The major constraint for micro, small and medium enterprises, which employ 98% of the workforce mainly in the agricultural, trade, hotel and restaurant sector, is accessing finance. A strong dependency on internal sources of financing hinders investments and expansion plans, thus undermining the competitiveness of the Philippine economy and the transformation of the economy from agriculture to manufacturing. High concentration in several sectors of the economy constitutes an additional barrier to under-capitalized enterprises.



The government continued to promote public-private-partnerships (PPPs), in order to attract new investors, tackle bottlenecks in infrastructure projects and privatize some of the remaining state-owned enterprises.

The current administration in the Philippines has no plans for the privatization of the economically important state-owned enterprises.

## 10 | Welfare Regime

Social safety nets are still very underdeveloped. Most Filipinos rely on support from family (particularly remittances from relatives living overseas) or village-level structures.

The main instrument of the state's social safety system is the conditional cash transfer (CCT) program (Pantawid Pamilyang Pilipino Program; 4Ps), which was launched in 2007. Ex-President Aquino and current President Duterte continued the CCT program, but enacted no major new social safety policy initiatives.

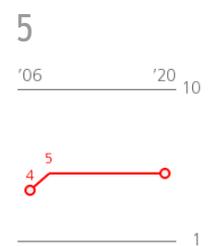
Currently, the CCT program covers about 4.4 million poor households, reaching more than 10 million children. CCT grants regular payments of about \$33 to mothers, conditional on their children regularly attending school and receiving preventive health check-ups. According to a study by the Asian Development Bank (ADB) and the World Bank, the Philippine CCT is one of the most efficient social safety systems: it costs less than 0.5% of the GDP, yet reaches approximately 15 million people. The program has one of the most comprehensive poverty targeting databases in the world today, covering 75% of the country's population. One of its main advantages is that it delivers basic support outside the traditional patronage systems.

The Philippines is ranked 10 out of 135 countries in the 2018 Global Gender Gap Index with a score of 0.799, the highest among Asian countries and close to the leading Scandinavian group of countries. The index covers economic participation and opportunity, educational attainment, health and survival and political empowerment. The Philippines excels in categories regarding education equality: the literacy ratio is at 1.0, enrollment in primary education is at 1.04, in secondary education is at 1.19 and enrollment in tertiary is at 1.28. Women constitute a clear majority of the country's professional and technical workers as well as managers and senior officials. Nevertheless, the Global Gender Gap Index also reveals that Filipino women earn just 79.3% of men's income.

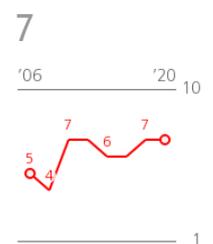
Despite the remarkable state of gender equality regarding education and health care, there is still room for improvement in the socioeconomic and political context and effective enforcement of existing women empowerment laws.

As mentioned under indicator 6.1, large income disparities as well as a high poverty rate constitute severe constraints on the social and political participation of the poor.

Social safety nets



Equal opportunity



However, the government is set to tackle this via its relatively successful conditional cash transfer program. Furthermore, the geographic nature of the archipelago as well as underdeveloped infrastructure in rural regions will remain a significant challenge for overcoming socioeconomic disparities. The critical situation of indigenous groups that have experienced consistent marginalization and have been victims of land-grabbing has not improved in recent years.

Under the Duterte administration, republic act 10911 was passed, which penalizes employers who refuse to hire workers because of their advanced age. This is a significant step in implementing anti-discrimination in employment. A pending bill on anti-discrimination based on SOGIE (sexual orientation or gender identification/expression) is filed in Congress, but is yet to be passed as of January 2019.

## 11 | Economic Performance

Once known as the “sick man of Southeast Asia,” the Filipino economy has performed relatively well since the late 2000s. Despite a difficult global environment, the Philippines were between 2016 and 2018 one of the fastest growing economies in East Asia.

In 2018, GDP growth reached a respectable 6.2%, but missed the government’s target of 6.5% to 6.9%. As described in indicator 8.1, relatively high inflation rates, the devaluation of the Philippine peso and growing public debt were major economic concerns in 2018.

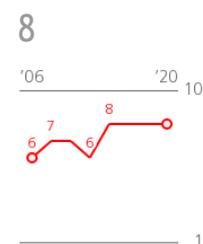
In December 2018, the World Bank reduced its growth projections for the Philippines to 6.4% in 2018 and 6.5% in 2019. Previously, the growth projections were 6.5% and 6.7% respectively.

The World Bank noted that a moderation in the inflation rate could be expected to boost consumer confidence and raise private consumption in 2019. Mid-term elections in May 2019 are expected to strengthen consumption by temporarily raising employment and disposable incomes.

According to the national statistics office, the employment rate in October 2018 was estimated at 94.9%. Underemployment was estimated at 13.3%.

The growth rate of GDP per capita based on constant local currency was 5.1% in 2017. The GDP per capita based on purchasing power parity (PPP) continued to increase and was calculated at \$8,343 in 2017. At the same time, inflation rates saw an increase to 5.2% in 2018.

Output strength



## 12 | Sustainability

In the latest Environmental Performance Index (EPI) 2018, the Philippines was ranked 82 out of 180 countries, a decline of 16 places compared to 2016. The EPI scores and ranks countries on the basis of two areas: environmental health, which measures the protection of human health from environmental harm, and ecosystem vitality, which measures ecosystem protection and resource management.

It is remarkable that more than 25% of the Philippines' electrical energy is from renewable energy sources. Geothermal energy production is one of the highest in the world. In contrast, mining, which causes many environmental problems in neighboring countries, is heavily restricted in the Philippines.

Environmental activist Gina Lopez, who raised hopes for more ecological policies when she was appointed by the Duterte administration as interim secretary of environment and natural resources, was rejected by the commission on appointments of Congress, including major Duterte supporters in May 2017.

President Duterte, who initially has expressed his doubts about the existence of climate change, has performed an about-face. He was convinced by his cabinet to honor commitments made by previous Philippine governments and signed the Paris Agreement in March 2017. The Philippines is one of the most vulnerable nations to climate change, experiencing an increasing number of natural disasters such as typhoons in recent years.

On direct order from the President, the small but frequently-visited tourist island of Boracay was closed in April after President Duterte visited the island and was reportedly outraged by "environmental violations" that had left the island a "cesspool." After an intensive clean up, the island reopened in October 2018.

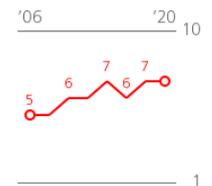
Human capital development is a key element in the Philippine development plan 2017 to 2022. Recent education reforms have increased enrollment levels, graduation rates and mean years of schooling in elementary and secondary education. They have also improved the quality of higher education. The 2013 basic education act extended the basic education cycle from 10 to 13 years.

However, simply increasing the number of years of schooling does not automatically result in greater learning and qualifications. In the U.N. Education Index, which captures the level of education by measuring average years of schooling for adults, the Philippines has stagnated with a value of 0.661.

Nevertheless, the enacted educational reforms are a serious attempt to counter the vast deficits in the education system, which constitutes a significant constraint on further inclusive growth. The Philippines has historically scored very low in international math and science high school rankings. With around 35 students per

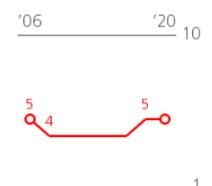
Environmental policy

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Education policy / R&D

5



teacher in high school, the Philippines has one of the worst teacher-student ratios at the secondary level of education in Southeast Asia. The country also suffers from the tendency of skilled workers to emigrate to higher-income countries.

The education budget has grown markedly from 2.9% of the GDP in 2013 to 3.8% of the GDP in 2016. The Duterte administration has further increased expenditure on education and passed the universal access to quality tertiary education act, which includes provisions for the state to pay the tuition fees for undergraduate students in state universities.

Philippine investment in R&D increased slightly from 0.14% of the GDP in 2014 to 0.18% of the GDP by 2017, but this remains among the lowest in Asia. Several academics and sections of the business community have demanded that the Philippines invest more in science and technology in order to sustain economic growth rates.

## Governance

### I. Level of Difficulty

The Philippines is an archipelago consisting of more than 7,000 islands, which stretch approximately 1,850 kilometers from north to south and more than 1,100 kilometers from west to east. With more than 100 million inhabitants (and an additional 10 million who live and work abroad), the Philippines is the 13th most populated state in the world, posing a more difficult challenge for good governance and development than in smaller states. The Philippines is predominantly mountainous. It is an extremely multiethnic and multilingual country. Additionally, its close location to the Pacific Ring of Fire leaves the Philippines prone to relatively frequent natural disasters, such as volcanic eruptions, earthquakes and typhoons. In the last few years, the Philippines witnessed several extremely strong typhoons.

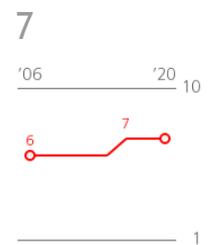
In 2018, Typhoon Mangkhut, the strongest storm recorded in the world that year barreled through the northern Philippines bringing with it ferocious winds and torrential rain causing damage of more than \$600 million. In the Weltrisiko-Index 2018 of the University of Bochum, the Philippines were ranked 3 out of 171 countries on a scale of countries most vulnerable to natural disasters, only topped by the two small Pacific islands of Vanuatu and Tonga.

It is obvious that under these geographic and demographic conditions, it is difficult for any government to provide adequate infrastructure and public services (health care, education, etc.) to all parts of the country. Weak state capacity and structurally ingrained social inequality further constrain the political leadership's governance capacity.

Despite remarkable GDP growth in recent years, the poverty rate is declining only slowly. A very high rate of population growth is one reason why addressing poverty is so difficult. In the last 35 years, the population of the Philippines has doubled from around 50 million in 1982 to more than 100 million in 2016.

Not least due to the prominence of Roman Catholic beliefs on sex and reproduction, the Philippine population is currently increasing at a rate of approximately 1.8 million people per year. With a fertility rate of 2.86 in 2018 (United Nations), the Philippines is the fastest growing country in Southeast Asia (except East Timor).

Structural  
constraints



As mentioned in indicator 5.2, the Philippines has a vibrant associational system and the largest number of NGOs per capita in Asia. Institutional factors such as the 1987 constitution and the local government code (the “decentralization law”) provide favorable political incentives for the flourishing of civic associations and interest groups.

The spectrum encompasses archconservative Christian organizations, business associations, civil liberty groups and leftist organizations. Many of them are very active and seek to make their voice heard in the public sphere.

Transparency and frequent public participation lead to relatively high social capital. However, this advantage translates insufficiently into politics, meaning that the dominance of oligarchic clans has been challenged but not broken by civil society. The growing authoritarian tendencies of the Duterte government are a threat to civil society groups that are critical of government policies.

A variety of serious conflicts plagues the Philippine state. The most important cleavage in the Philippines is the sharp division between a small, but extremely powerful upper class, mostly consisting of established landowning family clans and the large majority of the population, who live in poverty. To date, all governments have failed to distribute the nation’s wealth in accordance with the principle of social justice.

Another major cleavage in the extremely multilingual and multiethnic country is that between center and periphery. Urban areas, particularly Metro Manila, enjoy a much higher standard of living than rural areas and will continue to do so in the near future.

The conflict in Muslim Mindanao is not only for ethnic and religious reasons. The eastern parts of Mindanao are the poorest and least developed areas of the country. In addition, local warlords with private armies are responsible for widespread violence. The crime rate is not as high everywhere as in the troubled regions of Muslim Mindanao, but compared to other Southeast Asian countries, the number of conflicts and the use of violence in the Philippines is above average.

The war on drugs and criminality that President Duterte began in 2016 led to extrajudicial killings and human rights abuses, particularly among the poor social classes, and adds another dimension to existing conflicts. The financial and political strengthening of military and police units, particularly the de facto immunity granted to them, is also partly responsible for the continuation of violence in many parts of the country.

#### Civil society traditions

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#### Conflict intensity

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## II. Governance Performance

### 14 | Steering Capability

The top priority of the current administration under President Duterte is to improve the economic conditions and reduce poverty in the country. In his state of the nation address in 2018, President Duterte underlined his efforts to pass the tax reform for acceleration and inclusion (TRAIN), designed to reduce corporate income tax rates. Another priority stressed by the administration is education.

President Duterte and his followers regard criminality and drug abuse as major hindrances of socioeconomic development in the Philippines. Additionally, he wants to reform existing political and administrative structures by proposing a new draft constitution, the main idea of which is the introduction of federal government structures.

In general, the Duterte administration shows a great commitment to reform and has set clear priorities, even if many observers question whether these priorities are the correct ones. The president's lack of respect for human rights and his authoritarian leadership style are not compatible with the country's overall drive for deepening democracy.

Resistance against some of the reform measures comes from some of the established clans and dynasties who fear that their power and wealth could be endangered. This became evident when the House of Representatives reversed the reform proposals contained in the draft federal constitution.

Resistance against some of the illiberal reform measures of the Duterte administration has come from pro-democratic politicians, civil society organizations and scholars.

Policy implementation is a major problem in the Philippines. Compared to his electoral campaign promises, President Duterte has only realized a small number of his planned projects. The massive investments in public private partnership programs to deliver urgently needed infrastructure projects such as highways and public transport have been plagued by significant delays in construction.

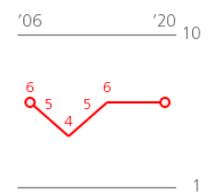
In 2016, President Duterte stated that only he alone can solve the enormous traffic problems in Metro Manila. Until 2019, however, no major action has been taken. On the contrary, the situation has become worse and Metro Manila is now one of the most congested cities in the world.

There is a variety of reasons for the implementation difficulties in the Philippines. It is not only excessive bureaucracy, but also resistance from established elites, and sometimes ignorance and incompetency among political decision makers.

Question  
Score

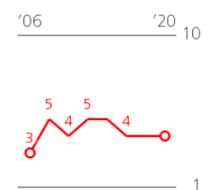
Prioritization

6



Implementation

4



If judged by the rhetoric of leading politicians and technocrats, policy learning is an important part of Philippine policy-making, but the reality is often more sobering. It is relatively common in Philippine politics that the newly elected administration distances itself from the policies of their predecessors and tries to avoid their mistakes. President Duterte complained about the missing successes and the slow pace of reform of his predecessor and tried to speed up the process. To date however, there are few visible examples of policy learning.

The Philippines were under previous administrations generally very open to receiving foreign advice and consultancy. This has become less so under President Duterte. In the past, presidents listened particularly to advisers from the United States. This seems to have changed under the Duterte administration, which places more emphasis on advice from authoritarian countries such as China and Russia.

## 15 | Resource Efficiency

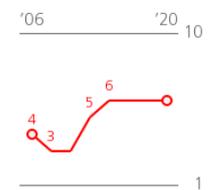
The Philippine government makes efficient use of only some of its available human, financial and organizational resources. The appointment of public servants is in many cases not in accordance with competitive recruiting procedures but rather a tool of patronage. In particular, the Philippine president can appoint thousands of administrative positions and every president so far has made use of this power. The number of politically motivated dismissals is very high, reducing the efficient use of government administrative personnel. The entire public service is inefficient, primarily due to lack of effective management.

A substantial waste of public money is the pork barrel system, a lump-sum discretionary fund granted to each member of Congress to be spent in their respective constituencies. Many members of Congress divert this public money into their own pockets. Despite being officially abolished by a Supreme Court decision in 2014, this practice has continued. Members of Congress continue to submit “lists of projects” to the administration to be funded by the national budget.

Under the Aquino administration, the Philippines did relatively well in terms of fiscal policies and balanced state budgets. This has changed under President Duterte, with higher budget spending, particularly for the security sector and education. Consequently, state debts have risen since 2016 and the state’s currency reserves have been reduced.

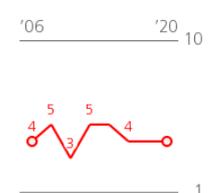
### Policy learning

6



### Efficient use of assets

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Currently there are no major frictions and contradictions between the various state departments. The Duterte administration controls the House of Representatives and the Supreme Court. Only the Senate does not always follow the president. The national government is supported by allies in a majority of the local governments.

What is problematic in terms of policy coordination is the limited strategic orientation toward innovation in the Philippines, which would be necessary to improve international competitiveness. The coordination between state, private enterprises and research institutions, such as universities and think tanks, desperately needs further improvement.

In his election campaign of 2016, President Duterte took a tough stance on the fight against corruption. In July 2016, Duterte signed an executive order mandating full public disclosure by all offices under the executive branch.

More than two years later, it became clear to the public that despite the radical rhetoric corruption continues to flourish in the Philippines. President Duterte dismissed several cabinet members like the former tourism secretary, Wanda Tulfo-Teo, or the former justice secretary, Vitaliano Aguirre, who were allegedly involved in corrupt practices. Formal legal procedures, however, were not undertaken in these cases.

In August 2018, a frustrated Rodrigo Duterte admitted that he might not succeed in eradicating corruption. At the same time, he warned the police against engaging in illegal activities, saying he was ready to give cash rewards to law enforcers who would kill their erring colleagues.

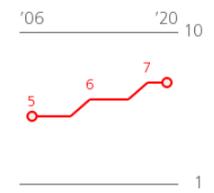
In terms of credibility in the fight against corruption, it must be noted that Duterte chose ex-president, Gloria Macapagal-Arroyo, as speaker of the House of Representatives. The latter is far from a good example of a “clean” leader and had been under house arrest for six years under the previous administration on charges of corruption, electoral fraud and plunder.

The Philippines have a special court, the Sandiganbayan, to tackle graft and corrupt practices committed by public officers and employees, including those in government-owned or controlled corporations. The commission on audit has the right to conduct audits of all financial reports of the government, including income, expenditure and uses of resources. In an evaluation of fiscal transparency by the International Monetary Fund (IMF), the Philippines received a relatively favorable assessment.

In recent years, the tax authority, the bureau of internal revenue (BIR) has pursued more cases of tax evasion than previously. A website, phone hotline and a Facebook page invite Filipinos to report tax cheaters, smugglers and officials guilty of graft or having a suspiciously lavish lifestyle. However, the rate of corruption remains high, particularly in the civil service and the police.

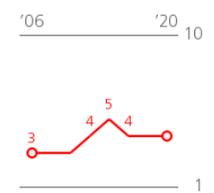
#### Policy coordination

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#### Anti-corruption policy

4



## 16 | Consensus-Building

Electoral democracy and the market economy are strongly supported by an overwhelming majority of the Filipino political and economic elite, as well as the general public. However, the high numbers of popular and elite support for an authoritarian leader like President Duterte reveals that this widespread support for democracy does not include all ingredients of a fully-fledged democracy. In this context, it must be noted that Duterte and his allies are more anti-liberal and anti-pluralist than anti-democratic.

Duterte still enjoys a high rate of support among the general public. In the fourth quarter social weather survey 2018, 74% of Filipinos were recorded as satisfied, 11% undecided and 15% dissatisfied with the performance of Rodrigo Duterte as president.

These attitudes are also found among the political clans and in their oligarchic and neo-feudal leadership. It is the task of reform-minded political actors to convince the important elements of the old elite to adopt liberal democratic values instead of paying lip-service to democracy.

Democracy as a general concept is refused completely by only small minorities. This includes the radical left, who strive for a communist order, and radical Islamists in Mindanao who favor an Islamic caliphate. President Duterte has made serious efforts to include the radical left in the mainstream political decision-making process, but has become increasingly frustrated. At the end of 2018, he ordered the army to hunt down and kill all militant communists.

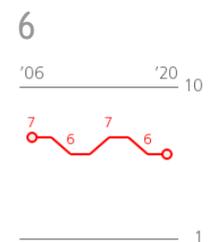
The market economy is generally accepted by a large majority of Filipinos. This is in part due to the strong American cultural influence and its emphasis on the key principles of market economy such as competition and private enterprise, which as a result are deeply engrained in the minds of the elites and ordinary Filipinos.

However, free market economy is heavily criticized by a large segment of the political left, ranging from moderate critics of neo-liberalism to radical communists. These groups would prefer a more state-oriented economic system.

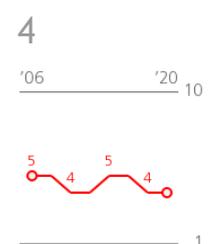
President Duterte himself can be regarded as an anti-democratic actor since he has displayed authoritarian tendencies, reflected by his low regard for human rights and civil liberties. Additionally, he has threatened on various occasions to declare martial law and/or abolish democratic institutions such as Congress or the Supreme Court if they oppose his policies.

In December 2018, Duterte and his followers in the Congress extended martial law in Mindanao (one-third of the country) until the end of 2019, prolonging what was already the country's longest period of martial law since the brutal 1970s era of late dictator Ferdinand Marcos.

Consensus on goals



Anti-democratic actors



As explained in indicator 16.1, established family clans, who care more for their economic and political power than for a liberal democracy, are a danger to deeper democratization in the Philippines. They are mostly co-opted within the democratic structures, but show resistance against any substantial reforms that would endanger their positions and privileges.

The armed forces of the Philippines (AFP) is a potential veto player, of which some factions have initiated several attempted coup d'états since the start of the democratization process in 1986. The administration of former President Gloria Macapagal-Arroyo relied heavily on their support due to its low level of public legitimacy. Whereas military expenditure (as a percentage of the GDP) was declining under the Aquino administration, President Duterte has raised it. Additionally, he appointed many retired army members to top government and administrative positions. One-third of his secretaries are former high-ranking military men.

The most important internal conflict in the Philippines is in the Muslim areas of Mindanao (Bangsamoro). The Duterte administration began a new round of negotiations with the Moro Islamic Liberation Front (MILF) and agreed the Bangsamoro Organic Law (BOL), which will establish and operationalize the envisioned Bangsamoro political entity.

Under the deal for BOL, the rebels gave up their goal of an independent state in exchange for broad autonomy. Their 30,000 to 40,000 fighters are to be demobilized, ending a decades-long separatist rebellion that has killed more than 100,000 people. A referendum in January 2019 ratified the BOL and a more autonomous Bangsamoro government is soon to be established.

There are, however, several indicators that the conflict will still continue. In May 2017, Islamic militants took control of the Mindanao city of Marawi. It took five months for the Philippine army to drive out the militants in a conflict that left 1,200 people dead and the city in ruins. In January 2019, two bombs exploded near a church on the island of Jolo, where a majority of citizens voted against the BOL, killing 20 people.

The cleavage between labor and capital has not been reduced in recent years. Trade unions find themselves in a difficult position. As can be seen in many other countries, the main benefits of economic progress went to the already well-off people. Since a redistribution of wealth is only weakly implemented in the Philippines, the cleavage is likely to grow in the coming year.

So far, the Duterte administration relies on the traditional liberal economic programs (trickle-down effect) of his predecessors and shows insufficient engagement to seriously tackle this socioeconomic cleavage.

Cleavage /  
conflict  
management

5

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1

During the Aquino administration (2010–2016), civil society organizations played a more participatory role in political decision-making than under previous administrations. Many of Aquino’s advisers and secretaries had an NGO background.

This changed when Rodrigo Duterte assumed the presidency in May 2016. Pluralist and liberal civil society organizations that promote human rights and civil liberties were sidelined by his administration, and worse, increasingly put under pressure.

While civil society organizations and NGOs are usually excluded from formal decision-making, they play an important role in initiating legislation and influencing debates in Congress. A multitude of watchdog organizations closely monitor policy implementation. Community-based organizations exert a strong influence on local level political decision-making.

More than 25 years after the end of the authoritarian and military-backed dictatorship of Ferdinand Marcos, the Aquino administration gave financial compensations to the victims when Congress passed a law in February 2013. In late 2018, a total of 11,103 victims of human rights violations were compensated.

In stark contrast, President Duterte allowed the burial of the late dictator Ferdinand Marcos at the Libingan ng mga Bayani (Cemetery of Heroes) shortly after taking office. Additionally, he openly showed support for the political careers of the son and wife of Marcos. These actions did not contribute to reconciliation between the supporters and victims of the authoritarian rule of Ferdinand Marcos.

Another important reconciliation process concerns that between the national government and the Muslim minority (Bangsamoro) in Mindanao. A major step was the signing of a comprehensive peace agreement between the central government and the MILF (Moro Islamic Liberation Front) in March 2014, followed by agreeing of the Bangsamoro Organic Law (BOL) in 2018, which was ratified by referendum in January 2019. In the BOL, the government explicitly acknowledged the Bangsamoro’s “distinct historical identity and birthright to their ancestral homeland.” Despite some inevitable setbacks, the peace process in Bangsamoro has a realistic chance of success.

### Civil society participation

5

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\_\_\_\_\_ 1

### Reconciliation

6

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\_\_\_\_\_ 1

## 17 | International Cooperation

Philippine governments have repeatedly underlined their willingness to learn and to profit from international loans, grants and knowledge in order to improve their internal weaknesses in terms of governance and economic development. In February 2017, the national economic and development authority (NEDA) officially approved the Philippine development plan 2017 to 2022 targeting the socioeconomic improvement of the living conditions for all Filipinos.

According to NEDA, the Philippines total outstanding ODA portfolio for 2017 reached \$14.72 billion, constituting 352 grants and 70 loans. The infrastructure sector continues to receive the largest share of total ODA at \$6.62 billion, accounting for 45% of the total amount, followed by social reform and community development at 26.1%.

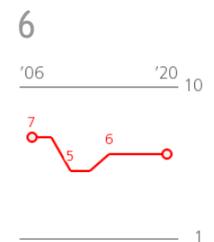
The insulting statements made by President Duterte toward the United States and the EU and its member states have not led to big changes in terms of development cooperation. On the other hand, the announced huge financial support from China has not yet materialized either.

Despite all the Philippine interest in international cooperation, implementation is in several cases hampered by an inefficient bureaucratic system and excessive red tape within the implementing organizations. In some cases, bureaucrats and local organizations in charge have even misused development aid funds.

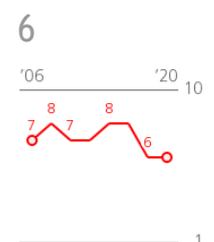
The Philippines is a generally reliable and well-reputed member of the international community. The traditional close cooperation with the United States and its East Asian allies Japan and South Korea was challenged by the ascendancy of President Rodrigo Duterte. Confronting the United States administration, Duterte announced that he would forge “new alliances” with China and Russia. Surveys have shown, however, that China and Russia (in stark contrast to the United States) are not very popular among the Filipino population. China’s claims over maritime territory the Philippines considers its own are perceived as a threat by most observers. Duterte’s distinctive foreign policy has led to a loss of credibility with many Western and East Asian countries.

Additionally, Duterte’s war on drugs and the resulting deterioration of the human rights situation in the Philippines has diminished international trust in the current government, particularly among Western democracies. The harsh criticism made by President Duterte of the United Nations and his threat to revoke the Philippines’ membership, has irritated international organizations. In March 2018, the Philippines withdrew from the International Criminal Court (ICC), a month after the judicial body started an inquiry into President Duterte’s controversial war on drugs. Duterte

Effective use of support



Credibility



threatened to arrest ICC prosecutor Fatou Bensouda, who had announced the start of a preliminary examination, if she were to enter the country.

This example illustrates the low regard in which the Duterte administration holds international organizations including the United Nations, the World Bank and the European Union. Accordingly, the credibility of the Philippines in the international sphere has decreased.

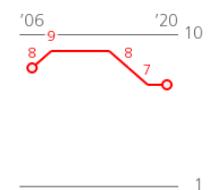
As an island state with no land borders with any neighbor, the Philippines has good diplomatic relations with all Southeast Asian countries. As one of the few democracies, the Philippines traditionally played a leading role within the ASEAN community in promoting democracy and open markets. In 2017, the Philippines assumed the ASEAN chairmanship.

In review period, a major issue of regional cooperation was the conflict with China over various land and water territories in the South China Sea (or West Philippine Sea in Filipino parlance). Both claim that the Scarborough Shoal as well as other maritime territories such as the Malampaya and Camago gas fields are part of their national territory. In July 2016, the International Court of Justice in Den Haag declared the Chinese territorial demands for territories as unjustified. Despite China ignoring this verdict and continuing its ongoing establishment of military structures on artificial islands close to Philippine territory, the Duterte administration completely reversed the foreign policy of his predecessor's administration: the Duterte administration now wants to have friendly relations, even military cooperation, with Beijing, and intends to solve the conflict in a bilateral way.

In various public statements, President Duterte has made clear that he does not believe in international organizations and their rules. In analogy to President Trump in the United States, Duterte says he prefers bilateral agreements and ad-hoc deal-making with other states

Regional  
cooperation

7



## Strategic Outlook

The policies of Rodrigo Duterte, elected as president of the Philippines in May 2016, led not only to a decline of the quality of democracy in the Philippines, but also to a more or less openly explicit authoritarian rule. The use of extrajudicial killings in his war against drugs has led to many human rights abuses and a deterioration of civil liberties. For a return to a more democratic order, it is indispensable that the rule of law is strengthened and the de facto immunity for police and other security forces involved in illegal killings rescinded. Executive dominance should be reversed so that a more equal balance can be struck between the three branches of government. Additionally, the opinions of individuals, media representatives and social groups critical of the government must be tolerated and not suppressed.

The ongoing redrafting of the Philippines constitution is crucial for the political future of the country. There are, however, some doubts as to whether the planned introduction of federalism will genuinely strengthen good governance and increase economic prosperity across the entire country. The future constitution was to include regulations that stabilize democratic features such as the anti-dynasty provision and term limits for elective positions. These measures were proposed by the consultative commission, but removed by the House of Representatives.

This reflects the main structural problem of the Philippines, which is the dominance of entrenched family clans in politics and the economy. Their influence must be reduced in order to make politics and the economy more transparent and competitive. The anti-dynasty law, which has been debated in Congress since 1987, must eventually be passed.

The major economic challenges for the Philippines are sustaining the current positive economic growth trajectory and reducing poverty and inequality. The Duterte administration should seek to promote industries with a high potential for growth and impact (e.g. intra-Asian tourism and business process outsourcing). This could also act to limit the brain drain of skilled workers who often emigrate to higher-income countries.

In addition, the government should place more emphasis on improving the country's outdated infrastructure. The congested traffic situation in Metro Manila, for example, is not only a major concern for all local citizens, but causes immense financial damage to the country as well. Some large-scale infrastructure programs have already begun some time ago, but administrative mismanagement has created huge delays in implementation. Maybe the Duterte government can draw some policy lessons from neighboring Indonesia, where the government under Joko Widodo significantly improved the country's infrastructure within five years.

In terms of poverty reduction, the government should transform the current economic growth into a more inclusive version that contributes to an improvement of the living conditions of the millions of poor Filipinos. Despite the Duterte government increasing expenditure on health and education, the absolute and percentage poverty numbers are still below the East Asian average. Only with a

better-educated population can the country significantly reduce poverty and increase its international competitiveness.

Internal and external stability are the basic preconditions for a return to a more democratic system and the continuation of economic growth. Therefore, the Philippine government should carefully implement the BOL in Bangsamoro and prevent as much as possible radical forces from undermining peace in the troubled region. In international affairs, the Philippines should continue their alignment with the ASEAN community, but also carefully cooperate with their long-term partner the United States and their “new friend”, the People’s Republic of China.